HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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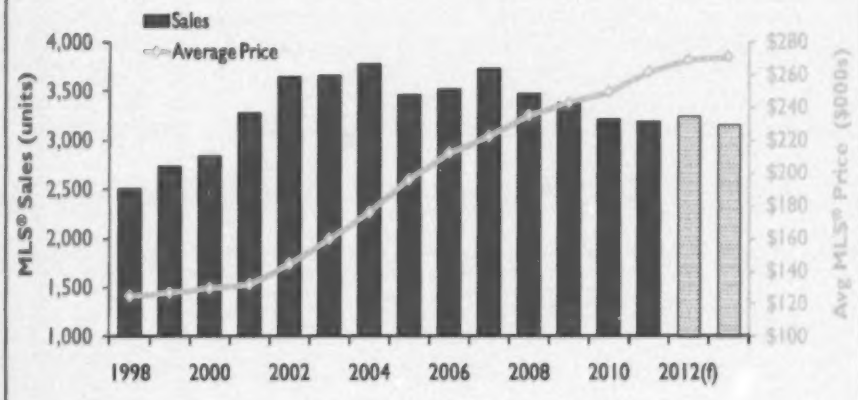
Market at a Glance

- Kingston existing home sales will moderate later this year and into 2013.
- Expect existing home average price in 2013 to grow roughly on par with the national rate of inflation.
- Kingston's total housing starts to moderate through the end of 2012 and into 2013 as residential construction activity returns to historical levels and in line with household formation.
- Modest job growth and fewer first time buyers will dampen housing activity in the short run while an improving economic outlook & affordability will support sales and price levels later in 2013.

Figure 1

Kingston's Existing Home Sales to Moderate in 2013



Source: CREA (MLS®); f = CMHC forecast

* The forecasts included in this document are based on information available as of October 17, 2012.

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Resale Market

Existing home sales to moderate in 2013

Kingston's existing home sales were particularly strong in the first half of 2012. Improving global economic prospects entering 2012 combined with prospects of further mortgage rule changes encouraged some first time buyers to purchase a home earlier than planned. Therefore, the number of resale homes will moderate in the second half of 2012. However, the annual sales volume for 2012 will slightly surpass last year's level before returning to the 15-year historical average in 2013.

While modest job growth will temper the momentum in housing demand, the introduction of new mortgage rules will also affect the housing market in the immediate term. New mortgage rules will promote more stability in the longer term. However in the next few months these changes will have a moderating effect on homeownership demand – particularly for first time buyers. Given their income constraints, generally first-time buyers are more sensitive to a rise in mortgage carrying costs. This phenomenon will slow the movement from rental accommodation into the homeownership market.

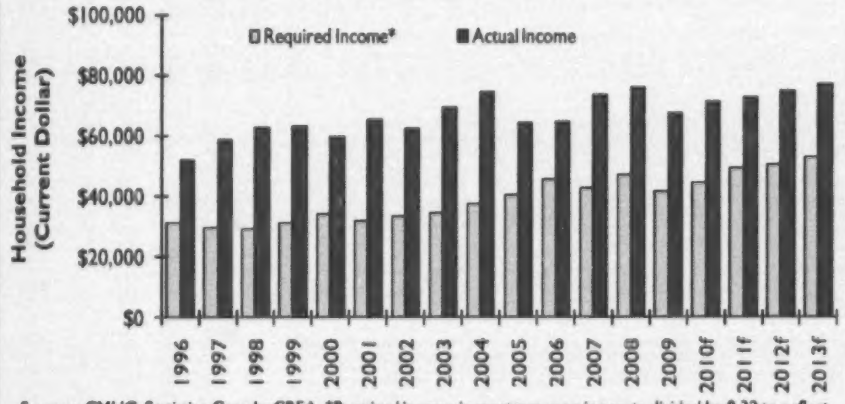
Growth in existing home average price to slow in 2013

Although the Kingston existing home market appears to be cooling-off in recent months, on balance average resale home prices will grow three per cent this year. However, in late 2012 through 2013 the number of new-listings will outpace the number of sales. As a result, the rate of change in average price growth will mirror the national rate of inflation.

On balance, and according to the latest CMHC calculation, required income to buy a home in Kingston is anticipated to increase slightly relative to the actual income for the average household. Consequently, homeownership affordability is projected to ease for 2012 and 2013.

Figure 2

Kingston's Required vs. Actual Income



Sources: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

However, a faster pace of growth in incomes relative to prices should help support sales and price levels by the second half of 2013.

New Home Market

Total housing starts to follow long-term trend

Kingston's total housing starts in 2013 will remain below last year's level, as weaker performances in single-detached and apartment starts continue to pull down total residential construction activity. In fact, year-to date the number of new single-detached which were completed and not absorbed increased by one third from the same period a year ago. Consequently, the sharp increase in new single-detached inventory will translate into lacklustre construction activity for this type of dwelling. In essence, single-detached housing starts will continue their downward trend and move to a level, which is in line with demographic fundamentals.

Meanwhile, apartment demand in Kingston remains strong as heightened economic uncertainty reduces the incentive for big ticket spending or put another way supports demand for less expensive housing . Even so, on the supply side, the higher number of rental units currently under construction will result in some developers scaling back apartment starts in the next two years. In fact, in August, the number of rental projects under construction reached 355 units – up from 196 units in the same month of 2011. As well, in the first eight months of 2012, the number of apartment units completed increased faster than during the same period a year earlier.

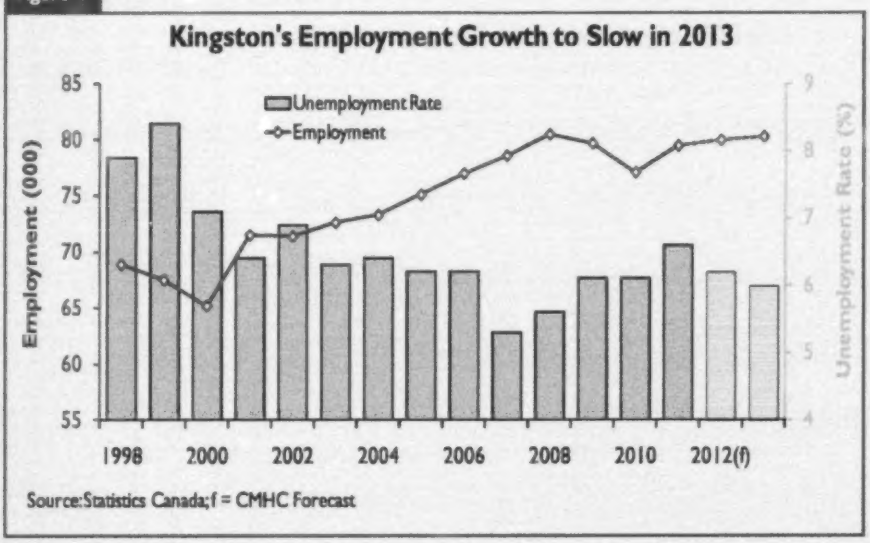
Figure 3

Source: CMHC (Starts Survey); f = CMHC Forecast

Row starts to maintain strength

As of August of 2012, single-detached remains the most popular dwelling type among home buyers in Kingston – partially due to the demographic composition. Nevertheless, some first-time buyers will be more likely to settle for a less expensive home as ownership affordability gradually eases in late 2012 through 2013. Accordingly, row starts will maintain their current strength as demand shifts in favour of smaller dwellings. Given that the current inventory levels of rows or townhouses are below historical average, construction activity for this type of structures should remain relatively healthy during the forecast horizon.

Figure 4



Source: Statistics Canada; f = CMHC Forecast

Economy

Kingston's employment growth to slow in 2013

Uncertainty over the deficit reduction plan both here and abroad and continued concerns regarding global economic prospects will hinder improvements in both business and consumer confidence in the short run. Consequently, employment growth in Kingston will remain modest. Due to low participation rate, the pace of growth for both the labour force and employment are expected to adjust by the same magnitude, thus allowing the unemployment rate to remain slightly below the 2011 level. More specifically, employment in Kingston is projected to increase marginally by 0.4 per cent in 2013. Meanwhile, the unemployment rate will trend downward at 6.2 per cent in 2012 and 6.0 per cent in 2013.

Health care sector to rebound next year

Following few months of slowing employment growth, the health care sector is poised to rebound in 2013. With an aging population and a longer life expectancy, the health care industry has one of the best growth projections of any sector. In fact, as of 2011, the proportion of seniors' population in Kingston increased to 16.3 per cent from 15.3 per cent in 2006. As a result, Kingston has the fourth oldest population among census metropolitan areas in Ontario – behind Peterborough, St. Catharines and Thunder Bay. Undoubtedly, the health care sector is considered the largest in Kingston – accounting for sixteen per cent of total employment in the area.

Kingston will continue to attract baby boomers

During the forecast horizon, Kingston will continue to attract baby boomers and younger seniors as the area is considered one of the best places in Canada to enjoy modest urban lifestyle. According to the 2011 census data released by Statistics Canada, the number of Kingston residents45 years and over increased by eleven per cent between 2006 and 2011. Based on CMHC's projection, Kingston will continue to benefit from positive inter-provincial and intra-provincial migration – particularly among the 45 to 64 age group. On balance, net migration in the Kingston CMA is projected to add on average 1,000 new residents annually for the next five years.

Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Kingston CMA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	3,377	3,209	3,179	3,250	2.2	3,150	-3.1
MLS® New Listings	6,259	6,286	6,516	6,550	0.5	6,600	0.8
MLS® Average Price ($)	242,729	249,509	261,968	269,200	2.8	271,000	0.7
New Home Market							
Starts:							
Single-Detached	432	522	467	450	-3.6	410	-8.9
Multiples	285	131	492	415	-15.7	230	-44.6
Semi-Detached	20	24	28	30	7.1	20	-33.3
Row/Townhouse	41	37	70	75	7.1	80	6.7
Apartments	224	70	394	310	-21.3	130	-58.1
Starts - Total	717	653	959	865	-9.8	640	-26.0
Average Price ($):							
Single-Detached	269,153	277,517	288,320	288,483	0.1	294,500	2.1
Semi-Detached	204,892	194,525	265,593	-		-	
Median Price ($):							
Single-Detached	269,300	267,400	282,000	279,500	-0.9	284,500	1.8
Semi-Detached	189,900	193,550	267,950	-		-	
New Housing Price Index (% chg) (Ont.)	0.1	2.4	3.6		-		-
Rental Market							
October Vacancy Rate (%)	1.3	1.0	1.1	1.3	0.2	1.5	0.2
Two-bedroom Average Rent (October) ($)	909	935	965	1,000	3.6	1020	2.0
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	79,700	77,100	79,500	80,000	0.6	80,300	0.4
Employment Growth (%)	-1.0	-3.3	3.1	0.6	-	0.4	-
Unemployment rate (%)	6.1	6.1	6.6	6.2	-	6.0	-
Net Migration [1]	1,001	1,189	1,520	1,200	-21.1	1,000	-16.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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